Council of the European Union

Brussels, 3 July 2026
(OR. en)

11134/26

ECOFIN 924
UEM 328
SOC 453
EMPL 255
COMPET 868
ENV 844
EDUC 310
ENER 466
JAI 904
GENDER 141
JEUN 184
SAN 542
ECB
EIB

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Portugal

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalised by the Economic and Financial Committee, based on the Commission Proposal COM(2026) 222 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Portugal

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30 April 2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 25 November 2025, the Commission adopted an opinion on the 2026 draft budgetary plan of Portugal. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which did not identify Portugal as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[2] on 21 April 2026, and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

---

[2] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of Recovery and Resilience Facility (RRF) implementation[3]. Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(5) On 3 June 2026, the Commission published the 2026 country report for Portugal. It assessed Portugal's progress in addressing the 2025 country-specific recommendations and took stock of Portugal's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Portugal is facing. It also assessed Portugal's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

(6) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Portugal[4]. The plan covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years. The Council recommended the following maximum growth rates of net expenditure: 5.0% in 2025, 5.1% in 2026, 1.2% in 2027 and 3.3% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 17.4% in 2025, 23.4% in 2026, 24.8% in 2027 and 28.9% in 2028.

(7) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending[5] and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Portugal, on 8 July 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Portugal to deviate from the recommended maximum growth rates of net expenditure[6]. The period when the national escape clause is activated (2025-2028) allows Portugal to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

---

[4] Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Portugal (OJ C, C/2025/641, 21.01.2025, ELI: http://data.europa.eu/eli/C/2025/641/oj).

[5] Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19 March 2025, C(2025) 2000 final.

[6] Council Recommendation of 8 July 2025 allowing Portugal to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3972, 20.08.2025, ELI: https://eur-lex.europa.eu/eli/C/2025/3972/oj).

(8) On 30 April 2026, Portugal submitted its 2026 Annual Progress Report[7] on adherence to the recommended maximum growth rates of net expenditure, and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Portugal's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(9) Real GDP growth in 2025 was 1.9% and HICP inflation stood at 2.2%. The Commission Spring 2026 Forecast projects real GDP to grow by 1.7% in 2026 and 1.8% in 2027, and HICP inflation to stand at 3.0% in 2026 and 2.3% in 2027.

(10) Based on data provided by Eurostat[8], Portugal's general government surplus increased from 0.6% of GDP in 2024 to 0.7% of GDP in 2025. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 0.1% of GDP in 2026 and a deficit of 0.4% of GDP in 2027. The decrease in 2026 mainly reflects the impact of government support measures taken in response to storms that hit Portugal in January and February, combined with the impact of further balance-deteriorating fiscal policy measures. The change of the deficit in 2027 mainly reflects the impact of additional balance-deteriorating fiscal policy measures, including a new housing package and reduction in corporate income tax.

---

[7] The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

[8] Eurostat-Euro Indicators, 22 April 2026.

(11) Based on the Commission's estimates, the fiscal stance[9], which includes both nationally and EU financed expenditure, was broadly neutral in 2025. It is projected to be expansionary, by 1.6% of GDP, in 2026, and contractionary, by 1.3% of GDP, in 2027.

(12) Based on data provided by Eurostat[10], Portugal's general government debt decreased from 93.5% of GDP at the end of 2024 to 89.7% of GDP at the end of 2025. The decrease in the debt ratio in 2025 mainly reflects a primary surplus and a favourable interest-growth differential. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to decrease to 87.6% by the end of 2026 and to further decrease to 86.0% by the end of 2027. The decrease in 2026 and 2027 mainly reflects the expected persistent primary surplus and favourable interest-growth differential.

(13) Based on Eurostat data[11], total general government defence expenditure in Portugal amounted to 0.8% of GDP in 2025. According to the Commission Spring 2026 Forecast, it is projected at the same level in 2026. This corresponds to an increase of 0.0 percentage points of GDP compared to the reference year 2021[12].

---

[9] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

[10] Eurostat-Euro Indicators, 22 May 2026.

[11] Eurostat, government expenditure by classification of functions of government (COFOG).

[12] The NATO defence spending definition differs from the COFOG defence definition. Furthermore, there could be differences due to the time of recording of expenditure, in particular military equipment, as the NATO reporting does not follow national accounts rules for the time of recording.

(14) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Portugal adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms[13]. These include an untargeted reduction in excise duties on diesel and petrol without a specified expiry date, further targeted support for the transport, agriculture and fishery sectors as well as targeted transfers to social sector entities, taxi companies and firefighting associations. The targeted support measures are set to expire by 30 June 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of these measures is projected to amount to 0.1% of GDP in 2026, also if all these measures were to be extended until end-2026.

(15) Based on the Commission's calculations, net expenditure in Portugal grew by 5.5% in 2025 and 18.7% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 0.2% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 0.4% of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, considering 2024 and 2025 together, the cumulative deviation of net expenditure remains at 0.4% of GDP. At the same time, as noted, the budgetary position for 2025 was in surplus.

[13] This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

(16) Based on the Commission's calculations, net expenditure in Portugal is projected to grow by 5.6% in 2026, and 25.2% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 0.2% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 0.6% of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, considering 2024, 2025 and 2026 together, the projected cumulative deviation of net expenditure remains at 0.6% of GDP. At the same time, as noted, the budgetary position for 2026 is projected to be close to balance.

(17) Population ageing alongside a forecasted decrease in the working-age population puts the sustainability of Portugal's pay-as-you-go pension system under pressure in the medium term. Public pension expenditure is projected to rise further over the next two decades, from 12.8% in 2025 to 15.1% in 2045[14] Portugal is projected to have the third highest pension expenditure-to-GDP ratio of all Member States in 2045, with the projected public pension system expenditure peaking in 2046. In Portugal, the statutory retirement age is linked to life expectancy, with a view to improving the sustainability of the pension system. Portugal also established a working group with the objectives to define strategies and assess proposals to ensure the sustainability of the pension system, including a reassessment of the early retirement scheme and a study on partial retirement mechanisms. However, the working group has yet to present its report including concrete policy proposals, and Portugal has not taken the additional structural measures necessary to alleviate the pressure on the country's public pension system. In addition, Portugal's supplementary pension schemes remain underdeveloped and cover only a fraction of the workforce. This also undermines the potential for Portugal to mobilise long-term savings for productive investments.

[14] European Commission, 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022−2070), Institutional Paper 279, April 2024

(18) Tax expenditures are widespread in the Portuguese tax system, with close to 800 different tax expenditures over several different legal texts. Tax expenditures can be an effective tool to achieve specific policy objectives. Nonetheless, they also result in foregone revenue, contribute to the tax system's complexity and could have implications for income inequality. In the context of the Recovery and Resilience Plan, Portugal has taken an initial step in tackling its large number of tax expenditures by setting up a new permanent tax policy unit (known as U-TAX) that aims to monitor and evaluate tax expenditures. However, following the publication of U-TAXs assessment report, effective action to streamline tax expenditure remains limited. In 2024, value-added tax expenditure alone represented 4.3% of GDP. The extensive use of reduced and intermediate VAT rates for hospitality services (hotel accommodations, restaurants, and catering services) may disproportionately benefit higher-income households. Numerous incentives and exemptions also add significantly to the complexity of the corporate income tax framework. Portugal could improve the effectiveness of its tax system by streamlining tax expenditures, including those related to reduced and intermediate value added tax rates and within the corporate income tax. In addition, Portugal's outstanding tax arrears relative to GDP remain one of the highest in the EU, despite a steady reduction since 2021.

(19) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(20) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF) in Portugal, remains below EU average, both in terms of project selection and payments. It is important to step up and accelerate efforts to ensure the swift delivery of investments, while maximising their impact on the ground. Portugal is already taking action under its cohesion policy programmes to boost competitiveness and growth. However, Portugal continues to face challenges in implementation, including those relating to delays in public procurement procedures due to appeals, limited technical and administrative capacity, delays in contracting support between the managing authorities and the inter-municipal communities responsible for territorial instruments, lengthy industrial licensing and permitting procedures, a lack of predictable planning, and insufficient mature project pipelines. At the same time, Portugal needs accelerate the implementation of the JTF as resources are due for disbursement by the end of 2026. It is essential to ensure that the new investments identified by Portugal in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation[15], are deployed rapidly and effectively.

(21) Portugal faces several challenges related to simplification, business environment, research and innovation, access to finance and growth financing, quality of law making, transport, renewable energy, energy infrastructure and networks, energy efficiency, environmental policy, resource management, climate adaptation, healthcare and long-term care, skills, education and training, as well as housing.

[15] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(22) Despite the progress made over recent years, administrative and regulatory burdens remain a major constraint to the operation of businesses in Portugal. These barriers weigh on the attractiveness of the Portuguese markets, reduce competition and undermine Portuguese firms' capacity to scale-up, innovate and boost their productivity. In particular, firms continue to report long industrial licensing and permitting procedures, which they consider to be a major barrier to investment. Despite some progress made in shortening and streamlining these processes, local authorities face difficulties in implementing the new procedures, and practices can differ significantly across regions and municipalities. Portugal could streamline and improve the effectiveness of its regulation by making wider use of ex-post policy evaluations as well as strengthening stakeholders' involvement and increasing transparency in the preparation of public policies. Late payments remain widespread, especially in the Azores, and the healthcare sector.

(23) Portuguese firms rely predominantly on bank loans and internal funding. Other sources of financing, such as venture and equity capital, have been increasingly adopted over the last few years but remain markedly less common than in the EU on average and Portuguese capital markets remain underdeveloped. The Portuguese authorities launched and strengthened several initiatives, such as the capitalisation and resilience fund managed by Banco Português de Fomento, programmes supporting start-ups or targeting specific sectors, as well as the recent review of the capital markets code. However, further progress is needed for Portugal to catch up with European peers and attract more private equity investors and investments, including by enhancing the role and capacity of institutional investors and by developing supplementary pension schemes, which could provide a stable and significant source of long-term capital for the venture capital and private equity segments. This could support innovation, increase local firms' capacity to scale up and expand their operation, improve managerial practices and boost productivity. Financial literacy in Portugal is weak and, in the 2023 Eurobarometer financial literacy survey, only 16% of Portuguese received a 'high' score, the second worst result in the EU. Portugal implemented several measures to address these gaps, among which the inclusion of financial literacy in school curricula. However, further efforts in improving financial literacy could enable a more effective allocation of savings and help improve firms' understanding of the specific benefits and risks of each available financing instrument.

(24) The justice system is becoming more efficient but continues to face challenges with lengthy proceedings and a sizeable backlog of cases, in particular in administrative and, to a lesser extent, tax courts. Firms report that inefficiencies in the judicial system present one of the main barriers to their operations[16]. It will be important for Portugal to continue making progress in reducing the backlog of pending cases, as well as their duration, in both first-instance and second-instance courts, and to ensure the availability of adequate resources for the justice system.

(25) Investment in research and development has picked up over recent years but remains insufficient for the Portuguese national research and innovation system to catch up with the EU average. The share of spending on research and development in relation to GDP increased to 1.7% in 2024, supported by an increase in private spending, while public research and development intensity remained stable at 0.6%. Portuguese authorities have implemented a wide range of programmes to support research and innovation, many of which are expected to be completed in 2026. While long-lasting benefits are expected from these programmes, adequate incentives to research, development and innovation would be necessary beyond their timeframe. Evaluating policies, targeting sectors displaying the highest potential for growth and value added, and taking regional specificities into account can support this. In this respect, policies should promote effective technology and knowledge transfers between firms and research centres, and enhance Portuguese firms' capacity to research and innovate.

---

[16] Studies on Business Statistics, Context Costs of Companies (IaCC), National statistical institute.

(26) Portugal remains highly dependent on imported fossil fuels. This poses important challenges for energy security and leaves Portugal vulnerable to price shocks. Transport is the sector with the largest contribution to Portugal's greenhouse gas emissions, and it is highly dependent on imported oil, which accounted for 93% of transport's total final energy consumption. Portugal records sizeable fossil-fuel subsidies without a planned phase-out before 2030. In particular, fossil-fuel subsidies that do not address energy poverty in a targeted way nor respond to energy security concerns, hinder electrification and are not crucial for industrial competitiveness could be considered a phase-out priority. Portugal did not take actions to phase-out fossil-fuel subsidies such as tax reductions and exemptions for diesel for freight companies and public transport, which perpetuate reliance on fossil fuels and disincentivise more sustainable transport solutions. Portugal is making progress in promoting electric mobility and decarbonising the vehicle fleet. However, support measures for private zero-emission vehicles, including commercial road transport vehicles, are insufficiently targeted. Progress on further developing the railway network remains limited. Although public transport is generally affordable, the availability in metropolitan areas is insufficient and the network out of urban areas remains underdeveloped, with limited access in rural areas. Inter-regional connectivity would require substantial strengthening across all modes of public transport, in particular rail. This could play an important role also in reducing the pressure on house prices in urban centres and in improving attractiveness of other territories.

(27) Portugal has one of the most decarbonised power systems in the EU. However, complex, lengthy and insufficiently digitalised permitting procedures continue to slow, notably, the deployment of new, grid-scale renewable capacity. The development of citizen-led renewable energy communities also remains very limited. The significant share of renewables contributes to ensuring affordable wholesale electricity prices amidst the ongoing conflict in the Middle East. However, limited non-fossil flexibility and scarce de-risking instruments leave Portugal exposed to electricity price peaks. In addition, the uptake of power purchase agreements remains limited. Incentives to further develop long-term contracts would help make the market more stable by securing long-term revenues for developers. Grid capacity limitations are increasingly affecting the connection of new renewable projects, with a growing backlog of projects awaiting connection and considerable amounts of allocated capacity not yet operational. While some measures have been taken to increase existing grid capacity, Portugal should increase the transparency on available distribution grid capacity to make it easier for developers to plan and invest in new projects, alongside with measures to improve grid efficiency such as promoting hybrid projects and to deter speculative applications. Addressing permitting procedures bottlenecks and further investing in electricity grids, including the completion of the cross-border interconnection with Spain, promoting storage, demand-side response and other flexibility solutions, and further digitalising the grid will enhance the resilience, stability and security of the network and support electrification efforts.

(28) A large share of the Portuguese population are exposed to energy poverty. Despite considerable funding, including from the EU budget, energy efficiency schemes in Portugal continue to face implementation delays due to complex and unstable programme designs. Portugal has recently introduced a scheme to mobilise private financing, although its uptake remains unclear. To reduce the high reliance on fossil fuels in buildings and curb energy consumption, Portugal should accelerate efforts on energy efficiency by improving scheme design and forward planning of the funding calls, strengthening incentives for deep renovations, promoting financing schemes to attract private investment, removing regulatory bottlenecks, particularly for multi-apartment buildings and public buildings, and better targeting grant-based support to vulnerable households experiencing energy poverty.

(29) While Portugal is not among the highest emitters in the EU, greenhouse gas emissions from industry are not substantially decreasing. Energy-intensive industries, such as paper, non-metallic minerals and the refining sector still account for more than half of the total industrial energy demand. Complex regulatory frameworks with overlapping governance levels, lengthy permitting processes, lack of predictability, and the lack of a regulatory framework for carbon capture and storage (CCUS) and related infrastructure all represent barriers to the decarbonisation of hard-to-abate sectors. Given its strong deployment of renewable energy and other net-zero technologies, alongside a highly decarbonised electricity system, Portugal is well positioned to strengthen its position in the value chain for the manufacturing of net-zero technologies and sustainable and circular materials. Portugal could benefit from better targeting support to low carbon industrial processes and the manufacturing and deployment of net-zero technologies, supporting the scale up of innovations, and attracting strategic low-carbon sectors such as the battery, biomethane and renewable hydrogen sector.

(30) Portugal significantly underperforms on circular economy and waste management indicators, both compared to EU targets and the EU average. Portugal continues to rely heavily on landfilling of municipal waste, with close to two-thirds of landfill sites nearing capacity; and it is at risk of missing the 2035 EU target of reducing landfilling to a maximum of 10%. Some progress has been made through national and regional initiatives, including the adoption of a new Circular Economy Action Plan in 2026, although their impact remains to be demonstrated. Portugal should continue implementing the current strategic framework and could benefit from enacting further reforms, including strengthening the use of economic instruments, notably the introduction of a mandatory pay-as-you throw model for household waste. The sector requires significant investment, notably in infrastructure for selective waste collection and recycling and in the development or upgrading of waste treatment facilities in order to reduce landfill and incinerator waste; whereas mobilising private support will be critical to improve waste management and advance the transition to a circular economy.

(31) Portugal is facing water scarcity, especially in the southern regions, driven in part by inadequate infrastructure, climate change and high demand. In addition, significant disparities in water prices across municipalities persist, giving rise to differential and counterproductive incentives for consumption. Portugal has been implementing a national water strategy, but important challenges remain. Streamlining governance in the water sector would support more effective coordination across national, regional and local levels. Demand-side measures, including a water pricing reform, would help improve water management and ensure capital for delivery of infrastructure upgrades, while incentivising conservation and water efficiency and reuse. Further investment is needed in wastewater collection and treatment, reducing network leakages, and strengthening monitoring of water quantity and quality, including groundwater abstraction. Nature-based solutions would also contribute to rehabilitating water bodies and to restoring the natural retention capacity of landscapes, wetlands and rivers, including floodplains.

(32) Portugal is particularly vulnerable to climate change and related extreme weather events, such as intense droughts, floods, wildfires and heatwaves. The increasing frequency and severity of these events necessitate costly reconstruction work and the rehabilitation of affected infrastructure, including critical infrastructure. Many sectors are impacted, especially the power sector, agriculture, water supply, forestry, fisheries and aquaculture. In addition, current levels of coastal protection are insufficient to prevent increased economic damages from coastal flooding and erosion. Therefore, Portugal would benefit from adequate and predictable financing to climate-proof critical infrastructure, including electricity grids, railways and water supply. In view of the intensive wildfires, forest policy reforms should be accelerated, and Portugal should continue to focus on developing viable economic value chains for forest biomass, taking further advantage of the potential of the bioeconomy to increase competitiveness and sustainability. It would be beneficial for Portugal to take a structured approach to disaster-risk financing and to promote increased private insurance coverage for damages related to natural catastrophes, as currently Portugal has one of the lowest shares of insured economic losses in the EU.

(33) Portugal's health system performs comparatively well in terms of health outcomes, but challenges remain in ensuring equal access to quality healthcare, particularly due to persistent staff shortages that undermine the efficiency of the National Health Service (NHS). Portugal has introduced important reforms and invested in healthcare infrastructure in recent years, including through its Recovery and Resilience Plan. However, significant challenges in filling vacancies and retaining healthcare professionals in the NHS contribute to persistent long waiting times and uneven access to care. Lower-income and vulnerable groups are ultimately more affected by the shortcomings of the system, as they often cannot afford turning into private options to meet their healthcare needs. Regional disparities in access to healthcare also remain, with stronger constraints in both very populated areas (where demand for the services is higher) and remote places facing demographic decline (where incentives are not sufficient to attract the needed workforce). Limited access and long waiting times have also been contributing to the high proportion of out-of-pocket payments to meet healthcare needs. Despite some measures put in place to address the staff shortages – and while ensuring the sustainability of the NHS – further improving working conditions of healthcare professionals could help increasing the attractiveness of the careers in the NHS and improving the efficiency of the system.

(34) Portugal is among the EU Member States facing a more rapidly ageing population, which implies significant and growing long-term care needs. However, public investment in long-term care is well below EU average and planning of long-term care provision continues to face coordination challenges. The provision of long-term care is skewed towards residential care, while home-based and community-based solutions could contribute to improving the ability of people to live independently. There are also regional disparities in the access to quality long-term care across the country, with rural areas particularly underserved.
The actions taken by Portugal so far (such as improvements in the status of informal carers and a pilot project on home support services) have had limited effectiveness or suffer from limited foreseen coverage. Supporting affordable options based on needs, including by strengthening home and community-based care, improving planning and closing the regional gaps could contribute to ensuring equal access to quality long-term care.

(35) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Portugal can contribute to the implementation of the Council Recommendation on human capital in the Union.

(36) In spite of positive labour market developments in recent years, Portugal faces persistent skills mismatches. These are fuelled by a misalignment of education and training with labour market needs, as well as by insufficient results in upskilling and reskilling the available workforce, despite measures taken in the right direction, like trainings in digital competencies. As a result, there are labour shortages in key sectors (such as ICT, construction, healthcare and justice) and firms report difficulties in finding available workers with the right set of skills. More effective and well targeted active labour market policies, in particular for youth, would also help reduce skills mismatches and ease labour market access for this group. In parallel, Portugal's productivity and competitiveness remain constrained by the low skills levels of the adult population. Participation in adult learning is still relatively low, in particular in the outermost regions. The use of skills intelligence tools could reduce mismatches by better aligning tertiary education, VET and adult learning offer with the skills needed in the labour market. In addition, raising outcomes and participation in adult learning could help boost skills levels among the segments of the population where they are lower, as well as providing the available workforce with the skills required by an evolving economy.

(37) Portugal has made significant progress in recent decades in raising educational attainment levels. In addition, the share of early leavers from education and training has steadily declined and is in line with the EU 2030 target, while participation in early childhood education and care remains well above the EU average. However, there is a worrying trend in the acquisition of basic skills in schools. Between 2018 and 2022, the share of low-performing students in mathematics, reading and science increased, while the share of top performers declined. Furthermore, educational outcomes remain uneven for students from disadvantaged socio-economic backgrounds, who are more likely to underperform (for example, 47% of students in the lowest socio-economic quarter underachieve in mathematics, compared to 30% overall). Students of a foreign background also have lower education outcomes on average, together with higher retention and dropout rates, at a time when their share has increased to around 14% of the student population in primary and lower-secondary education. In parallel, teacher shortages persist in the education system and risk affecting further the quality and inclusiveness of education. Addressing these issues is key to supporting skills development, equal opportunities, and social cohesion.

(38) Portugal recorded one of the highest cumulative increases in nominal house prices over the past ten years in the EU, more than doubling since 2015. Affordability pressures are much higher in coastal and urban areas. Structural imbalances between supply and demand persist. Portugal displays a comparatively high share of dwellings not used as primary residences, with a significant number of vacant and derelict properties. Shifting from transaction taxes toward recurrent taxation, including through an update of tax property values, could provide incentives for homeowners to put underused properties on the market and incentivise residential mobility. Investment in social housing has significantly increased over the past years, supported in part by Union funding. However, current figures of affordable and social housing are still below the EU average. While public investment remains central, participation from the private sector is essential to increase construction and meet demand, including solutions provided by the third sector such as cooperative housing. Increasing the supply of affordable and social housing requires taking into account territorial dimensions and principles of inclusion and non-segregation. Along with a gradual increase of supply, housing allowances can provide temporary relief to vulnerable households, although existing schemes would benefit from improved targeting. At the same time, homelessness and other forms of housing exclusion continue to grow, with regional differences in how effectively they are being addressed. Portugal makes insufficient use of regular ex-post evaluations and mapping of the needs in its housing policy. Through the Technical Support Instrument (TSI), Portugal will receive support to establish a national model for housing data governance and management, which should help strengthen the evaluation and monitoring of current and future housing policies when fully implemented. The current coordination between central and local authorities, as well as the coordination across housing, urban, spatial and transport planning, remains fragmented. Moreover, investment and financing mechanisms are mainly ad hoc.

(39) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Portugal, the recommendation (1) helps implement the first, the second and the third recommendations on the euro area, the recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) helps implement the seventh, ninth and eleventh recommendations on the euro area, recommendation (4) helps implement the second and the seventh recommendations on the euro area, and the recommendations (5) and (6) help implement the fifth recommendation on the euro area.

HEREBY RECOMMENDS that Portugal take action in 2026 and 2027 to:

1. While recognising a budgetary position in surplus or close to balance in Portugal, ensure that net expenditure respects the maximum growth rates recommended by the Council on 21 January 2025 given, the deviation recorded by 2025 and projected for 2026 by the Commission vis-à-vis the recommended net expenditure ceiling, while making use of the flexibility under the national escape clause activated by the Council. Reinforce overall defence and security spending and readiness, while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. Take action to ensure the medium-term fiscal sustainability of the pension system, and promote supplementary pension schemes. Improve the effectiveness of the tax system, particularly by streamlining tax expenditures.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Accelerate efforts to implement cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework.

3. Simplify regulation, improve the implementation of regulatory tools and coordination across levels of the public administration. Reduce administrative burden on businesses, removing barriers to industrial licensing and other obstacles to their capacity to scale up. Foster private investment into venture capital and private equity for local businesses and continue improving financial literacy. Further increase the efficiency of administrative and tax courts, to decrease the length of proceedings. Sustain the focus of investment-related economic policy on research and innovation.

4. Accelerate the decarbonisation of transport, in particular by phasing out fossil-fuel subsidies and strengthening public transport network. Foster long-term contracts, accelerate investment in flexibility solutions and provide a predictable regulatory framework. Strengthen the capacity of the electricity transmission and distribution grid, including in cross-border electricity interconnections, and improve connection procedures. Accelerate energy efficiency renovations by removing regulatory and administrative bottlenecks and by targeting households experiencing energy poverty. Foster the decarbonisation of industry. Increase waste management capacity, prevention, recycling and reuse. Improve water management and streamline water governance. Improve water efficiency and develop nature-based solutions. Address climate-related risks by strengthening sustainable forest and land management, accelerating the climate-proofing of critical infrastructure and promoting increased private insurance coverage against natural disaster-related damages.

5. Ensure equal access to quality healthcare, particularly by addressing the shortages of healthcare staff, while preserving the sustainability of the National Health Service. Ensure equal access to quality long-term care, including by addressing regional disparities and strengthening home and community-based care solutions. Address skills mismatches and improve skills levels, including by promoting participation in adult learning and by making education, training and adult learning more relevant to the needs of the labour market. Promote better educational outcomes, particularly for disadvantaged students.

6. Address housing affordability and availability, in particular by creating incentives to use the housing stock more efficiently, including through a re-calibration of the tax mix. Further expand the supply of housing, including affordable and social housing. Strengthen coordination and governance of housing policy, together with integrated urban, spatial and transport planning.

Done at Brussels,

For the Council
The president